

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D.C.



REPLY TO
ATTN OF:

OSA-1510-66
#A-85-66

SUBJECT:

REPLY TO:
Audit Liaison Office
P. O. Box 8155
S. W. Station
Washington, D. C.

TO:

6 April 1966

SUBJECT: Advisory Report on Review of
Forward Pricing Proposal
Lockheed Aircraft Corporation
(Lockheed-California Company)
Burbank, California
Contract No. SP-1928

TO : Contracting Officer

REF : 24 Feb 66 Request No. R-31-66 re
21 Feb 66 CLJ ltr to CO

1. Per request, we have evaluated the subject proposal. The evaluation consisted of (1) verifying, to the books and records, the direct labor hours, material costs, and other direct charges recorded through 26 December 1965; (2) verifying and/or computing average midpoint rates for each category of direct labor proposed (based upon those negotiated for Contract HA-3666 and our direct labor trend data); and (3) verifying that the overhead and G & A rates used by the contractor were those negotiated in October 1965 for use under ADP service contracts and for forward pricing miscellaneous small contracts.

2. Exhibit A summarizes the contractor's proposal and the auditor's recommendation. Pertinent comments follow below.

3. a. A certificate of current pricing was not furnished.

b. The auditor recommends that technically qualified personnel evaluate the proposed estimate hours, material requirements and other direct charges for a determination of reasonableness.

4. In this proposal, the contractor used various midpoint rates for each category of direct labor. Since all midpoints proposed are in 1966, the contractor applied 1966 overhead and G & A rates to the direct

labor hours, notwithstanding the fact that 81,112 direct labor hours were incurred in 1965. The auditor accepted the hours recorded in 1965, with applicable 1965 overhead and G & A rates as negotiated in October 1965 for use with this contract.

5. Direct Labor Rates. The auditor has either accepted the proposed rates and midpoints and/or computed different rates and midpoints which result in the following different rates.

STATINTL

a. The engineering rate of [] as proposed was negotiated for Contract HA-3666, using a midpoint of 1 February 1966.

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b. The fabrication and assembly rate of [] as proposed was that negotiated for Contract HA-3666, using a midpoint of 1 May 1966.

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flight test engineers to pilot. This recommendation is based upon the direct labor hours incurred on Contract SP-1926, which included IRAN and modification activity for the same type of airplanes, under which a 4 to 1 ratio was experienced.

6. Overhead and G & A Rates. The ADP rates used by the contractor and auditor are the rates for 1965 and 1966 as negotiated in October 1965 for use with this contract.

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7. The results of evaluation were discussed briefly with Mr. [] on 11 March 1966, who reserved opinion until the negotiation meeting.

Arthur G. Hanley
ARTHUR G. HANLEY
Auditor General Representative (APL)

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